



THE FUTURE OF INSURANCE

# Accelerating Innovation and Digitization Across the Insurance Industry



# Executive Summary

Insurance leaders are continuing to eye payment transformation as a strategic imperative in 2022 and beyond, as they navigate challenges fueled by aging legacy systems, high check volumes of traditional payables and receivables, as well as increasing client demands for digital services in the post-pandemic economy. **According to a recent study, more than two-thirds of insurers now believe that digitizing payments is an important part of their transformation journey.**<sup>1</sup>

While insurers look to embrace payment innovation, they continue to face challenges in deploying an effective transformation strategy. The industry must solve for both enterprise-wide challenges as well as distinct priorities across business lines. This long-standing reality has been a significant driver in the industry's history of conservative approach to next-generation capabilities.

In 2019, the industry reported that **52% of all disbursement payments were made via traditional mailed checks**, a percentage dramatically higher than that of the 22% reported across all industries.<sup>2</sup>

In a rapidly digitizing ecosystem, traditional payment methods appear to consumers as an antiquated and outdated artifact of the past. In addition to producing a suboptimal experience, they create higher operational costs and slower reconciliation processes. **It's estimated that it costs businesses an average of \$6.00 to issue one check.**<sup>3</sup> This includes, the administration required to support check printing, mailing, clearing and reconciling these payments. In addition to cost inefficiencies, traditional payment systems create processing bottlenecks, security vulnerabilities and a lacking client experience.

**More than 80% of consumers are more likely to work with a business that offers real-time payment options like push-to-card and direct deposit.**<sup>4</sup>

As a trusted collaborator to the insurance industry, BNY Mellon is lending our best-in-class perspective and capabilities to accelerate this digital payment transformation. We are confident our effective digital strategy will reshape insurance companies' treasury services, leveraging a growing suite of solutions and services in the areas of payments and liquidity, with an emphasis on helping clients more easily understand and adopt digital solutions to address these challenges.

This paper provides insights into the current payments and overall treasury landscape, while delivering guidance on how providers can integrate these capabilities into and across their organizations in a scalable fashion to expedite their digital transformation.

1. [New Data: 67% of Insurance Carriers See Need to Digitize Payments](#). PYMNTS. September 27, 2021.

2. [Here's Why Digital Payments Are Becoming A Must-Have For Insurers](#). CB Insights. December 21, 2020.

3. [The Cost of Issuing Checks](#). CheckIssuing.

4. [Visa Direct Insurance Claim Disbursements Report](#). VISA. 2019.

# It's Time for Innovation

## UNDERSTANDING CHALLENGES AND OPPORTUNITIES

The insurance industry has reached a pivotal moment in the call for digital payment transformation, as it navigates the convergence of several prominent trends. The next **12-18 months** will be critical for insurers as they work to scale both new and persisting challenges within the industry's space.

**1. Shifting client preferences.** The COVID-19 global pandemic has accelerated an already evolving payments landscape, driving both greater opportunities and consumer appetites for e-commerce, contactless payments, and self-directed consumer interfaces. Amid this new normal, projections suggest that the total transaction value for the global digital payments market will exceed \$11 trillion by 2026, registering a compound annual growth rate of more than 11% from 2021-2026.<sup>5</sup>

# 85%

of insurance CEOs say COVID-19 has accelerated the digitization of their operations and the creation of next-generation operating models.<sup>6</sup>

# 78%

of insurance CEOs say the pandemic turbo-charged progress on the creation of a seamless digital customer experience.<sup>7</sup>

**2. Emerging federal regulations.** The process of disbursing traditional payments will become increasingly cumbersome and expensive amid new and anticipated federal regulations. The United States Postal Service (USPS) announced plans to slow the delivery of some First-Class Mail, effectively eliminating the current delivery standard.<sup>8</sup> As service wanes, postage rates are continuing to climb. In 2021, USPS First-Class Mail prices increased by 6.8%,<sup>9</sup> with an additional postage rate hike scheduled for July 2022.<sup>10</sup> Most significantly, the Postal Regulatory Commission announced that Market Dominant price adjustments will occur twice every year.<sup>11</sup> These policies signal a continued impact on the industry's most vulnerable clients, including retirees who largely rely on traditional mail for benefits.

5. [Digital Payments Market Report 2021: Transaction Value was \\$5.44 Trillion in 2020 - Global Growth, Trends, COVID-19 Impact, and Forecasts 2021-2026 - ResearchAndMarkets.com](#). Business Wire. June 4, 2021.

6. [The COVID-19 catalyst: Insurers race to digitize](#). KPMG.

7. [The COVID-19 catalyst: Insurers race to digitize](#). KPMG.

8. [USPS to Implement New Service Standards for First-Class Mail and Periodicals on 10/1](#). USPS. September 17, 2021.

9. [2021 Postage Price Changes](#). USPS. September 16, 2021.

10. [Postal Service Announces New Market Dominant Price Adjustment Schedule](#). United States Postal Service. September 15, 2021.

11. [Postal Service Announces New Market Dominant Price Adjustment Schedule](#). United States Postal Service. September 15, 2021.

**3. Rising industry competition.** The global insurance technology (insurtech) market is expected to grow at a compound annual growth rate of more than 51% to exceed \$152 billion by 2030.<sup>12</sup> The growing insurtech space signals rapid transformation throughout the insurance industry. Traditional insurance providers will be challenged to embrace potential technology partnerships or refine internal infrastructure to remain competitive in servicing a growing cohort of digitally native policy holders seeking out self-service options and a strong online front-end experience, allowing them to monitor their accounts for payables and receivables across multiple lines of business into a single consolidated platform.



# Digital Transformation

## UNLOCKING FUTURE CAPABILITIES

Transformation does not represent a single destination on a map, but an ongoing journey that requires both a long-term strategy and near-term milestones. Embracing digitization across payment and processing systems unlocks opportunity for providers to capture client enthusiasm, streamline operations and create critical pathways to greater continuity and long-term resiliency.

# 82%

of Americans report using digital payments.<sup>13</sup>

# 50%

of surveyed insurers have adopted digital payments such as Zelle®.<sup>14</sup>

It is imperative for insurers to develop a strategy to support digital payment transformation. Currently, one-third of surveyed insurers believe that ACH payments are sufficient digital upgrades and have limited interest in expanding digital capabilities over the next two to three years.<sup>15</sup> Similarly, more than 80% of insurance providers have not yet implemented state-of-the-art payments such as real-time payments,<sup>16</sup> despite the wide use and implementation of the technology across industries.

These attitudes are at odds with growing consumer interest in new payment methods, including P2P and cash app technology. It is estimated that more than \$1 trillion will be transacted via mobile P2P apps by 2023, driven by platforms including Zelle.<sup>17</sup> Similarly, digital wallets are also capturing significant consumer attention, with 49% of all consumers currently using this technology to pay for goods and services. In comparison, another 37% said they use digital wallets to pay more than any other method.<sup>18</sup>

As the industry scales innovation, insurers must develop a long-term strategy that can create meaningful benefits for both the organization and pivot to include and embrace emerging technologies and services on the horizon.

<b>Short-Term Horizon Solutions</b>	Digital Payments
	ACH, RTP, FedNow <sup>SM</sup> , Zelle
<b>Mid-Term Horizon Solutions</b>	Digital Wallets
	Non-Bank Wallets
<b>Long-Term Horizon Solutions</b>	Cryptocurrencies and Alternative Assets

13. [New trends in US consumer digital payments](#). McKinsey. October 26, 2021.

14. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

15. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

16. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

17. [How the biggest mobile P2P payment players stack up](#). Insider Intelligence. April 19, 2021.

18. [After COVID, Consumers More Comfortable with Digital Payments](#). PYMNTS. December 28, 2021.

# Driving Enterprise-Wide Transformation

While the insurance industry largely recognizes the need for digital payment transformation and innovation, providers continue to struggle with enterprise-wide adoption of new technologies, sunseting antiquated systems, reconciling sub costs and meeting the unique treasury needs of each line of business. Below, we explore critical areas of consideration and outline important initiatives to successfully drive transformation.

Internal Efficiency and Infrastructure	Security and Resiliency	Consumer Experience
New and centralized payments infrastructure can more easily address challenges created through antiquated siloed disbursement and claims/ administrative systems.	Enhanced systems create better capabilities and reduce security risks in storing and processing payments to make intelligent business decisions, embedded into automated financial workflows.	Customers increasingly anticipate speed, ease of use and transparent payment platforms integrated in overall services.

## Enhancing Internal Efficiency and Infrastructure

**70%**

of surveyed insurers report evaluating payment hubs in the near- to mid-term future.<sup>19</sup>

**50%**

of surveyed insurers describe disparate billing systems between departments as a major issue.<sup>20</sup>

The industry currently faces notoriously cumbersome legacy infrastructure, resulting in elevated operational costs and inefficient processing systems. Insurers must look to integrate payment hubs to effectively drive operational continuity, cost savings and efficiencies through streamlined and centralized access to all payment methods.

19. Treasury Transformation Roundtable. BNY Mellon. September 2021.

20. Treasury Transformation Roundtable. BNY Mellon. September 2021.

Payment hubs can solve for some of the most substantial roadblocks and challenges that insurers may face during digital payment transformation. These include:

<b>Complicated Reconciliation Processes</b>	<b>Support for Multiple Payment Technologies</b>	<b>Complex Integration Paths</b>
Accounts need to be reconciled and any discrepancies found should be resolved quickly.	Payment infrastructure must be able to support all customer payment preferences with consistent and positive experiences.	Digital inbound and outbound payments must work in lockstep with legacy systems.

### Auditing for Security and Resiliency

<b>KEY MARKET TRENDS: SECURITY AND COMPLIANCE</b>		
<b>Identity Verification</b>	<b>Safeguarding Assets and Customer Information</b>	<b>Governance, Risk and Compliance</b>
Current and legacy systems may lack capabilities to provide sophisticated customer validation or the ability to filter out bad actors.	Cyber fraud, ransomware, hacking, high profile IT breaches, identity and account takeovers pose a multi-dimensional challenge for insurance providers.	Lack of enterprise-wide governance hampers efforts to integrate disparate legacy systems, ultimately heightening fragmentation and risk.



Cyber fraud and security compromises continue to pose significant operational and reputational risk throughout the insurance industry. As ACH payments become increasingly popular, insurers will need to strategically mobilize capabilities and systems to store bank account information consistent with elevated National Automated Clearing House Association (Nacha) data security requirements. Recently, BNY Mellon introduced supplemental data security requirements to better protect storage of bank account information among large-volume third parties and non-financial-institution originators.

# 60%

of surveyed insurers view cybersecurity and identity takeover/business email compromise as the most important fraud risks.<sup>21</sup>

# 35%

of surveyed insurers look to safeguard customer information and assets through a third-party provider.<sup>22</sup>

New digital payment technology can create better data storage and encryption to help safeguard assets and validate customer information. Additionally, the technology and underlying payment systems can help to mitigate the potential for human error and fraud that may be possible when disbursing payments via traditional mailed checks.

## Elevating the Consumer Experience

# 100%

of surveyed insurers who adopted new digital payment options have cited an increase in customer experience metrics.<sup>23</sup>

Choice is increasingly important to consumers. More than 80% of policyholders have reported that the ability to personalize payment experiences and choose a preferred model is an important factor impacting satisfaction.<sup>24</sup> Enterprise-wide innovation is a critical component in creating the continuity and flexibility that will meet changing expectations and foster confidence throughout the client lifecycle.

While younger policyholders and clients will be more likely to adopt new digital payment offerings, older client segments may be more apt to maintain legacy channels. With this in mind, insurers must work to create comprehensive campaigns to educate clients on the meaningful benefits of new solutions. This strategy will help to minimize check and manual processing, enhancing the client experience, and driving significant cost and process efficiencies for insurers.

21. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

22. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

23. Information collected through client interviews as part of the BNY Mellon Future of Insurance Survey in 2021.

24. [Industry Survey Explores the Race to Real-Time Claim Payments](#). VPay and Engine Insights. 2020.



# Building the Roadmap to Transformation

In an increasingly digital world, treasury transformation is critical. As the insurance industry continues to embrace this next generation of capabilities, banking relationships play a critical role in shaping long-term success. Insurance providers can lean on their banking partners to provide relevant real-time case studies, tools and analytics to enable ROI projections, timely insights into industry trends and innovations, and support for strategy development and execution.

Key takeaways for digital payment transformation journey:

- 1. System benchmarking.** The transformation journey begins with understanding current disbursement systems, associated expenses, as well as employee and customer experiences. Expenses include labor and administrative support, technology resources and platform maintenance.
- 2. Strategic investment.** Scaling digital payment adoption may mean considering initial investments in order to streamline operations for long-term gains. Leverage providers who have the necessary tools and expertise to assist with this analysis and execution to provide a comprehensive cost-benefit and ultimate return on investment.
- 3. Dynamic digital payment platform solutions.** Working with service providers and consultants to assess overall current payment capabilities and long-term requirements is foundationally key to developing enterprise-wide digital payments solutions. The ability to leverage existing payment hubs and solutions can help reduce the cost and time to market significantly.
- 4. Senior leadership sponsorship.** Establishing early and consistent enterprise executive sponsorship empowers decision-makers from across all lines of business to better allocate resources and prioritize digital payment transformation.
- 5. Risk management.** Assessing the risks with the integration of new payment technologies into legacy systems is imperative. This includes accounting for vulnerabilities that may be created in protecting and processing confidential data in alignment with evolving industry best practices.
- 6. Client adoption and onboarding.** Introducing comprehensive marketing campaigns to create client awareness is an important step toward creating digital payment adoption. Leverage service providers to assist with materials and education.
- 7. Industry synergies.** Embracing industry consultants and affiliations, including financial providers, can help drive digital payment transformation. Key areas of focus include industry trends, case studies, and best-in-class solutions.

BNY Mellon is committed to serving as a trusted orchestrator and provider. We are enterprising treasury solutions, leading with consultancy and scale to support insurers throughout their unique digital payment transformation journey. For more information on how BNY Mellon can help with digital payments transformation, please visit our [treasury services resources](#) located at [bnymellon.com](https://bnymellon.com) or contact [treasury@bnymellon.com](mailto:treasury@bnymellon.com).

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